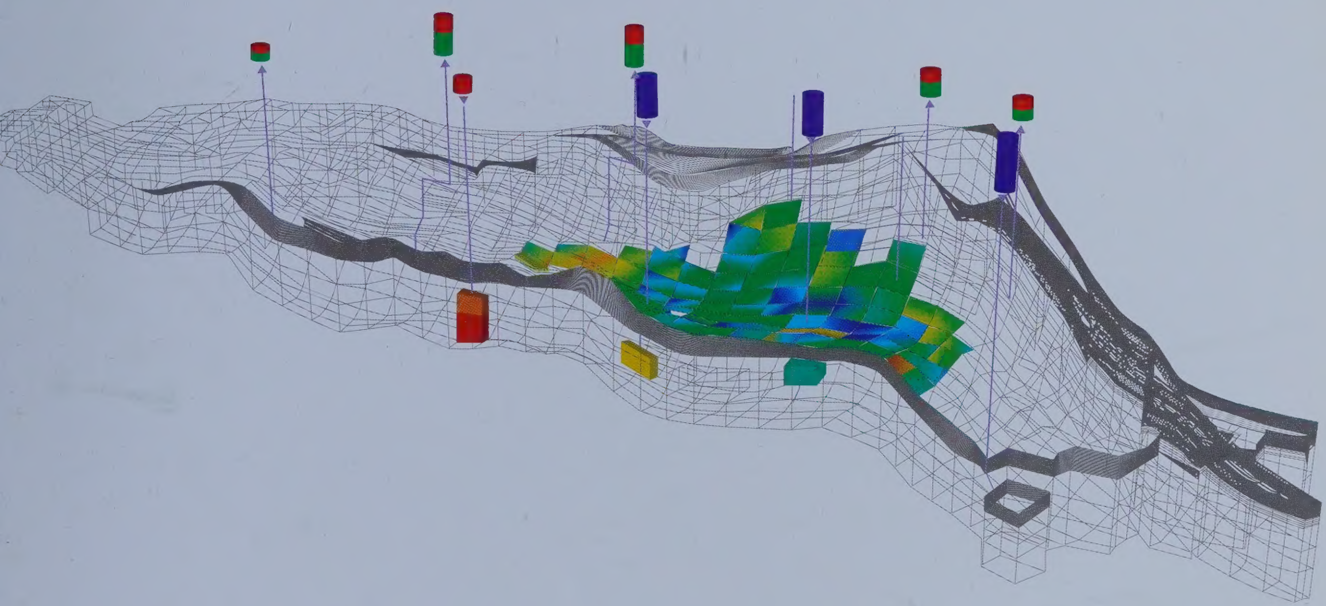
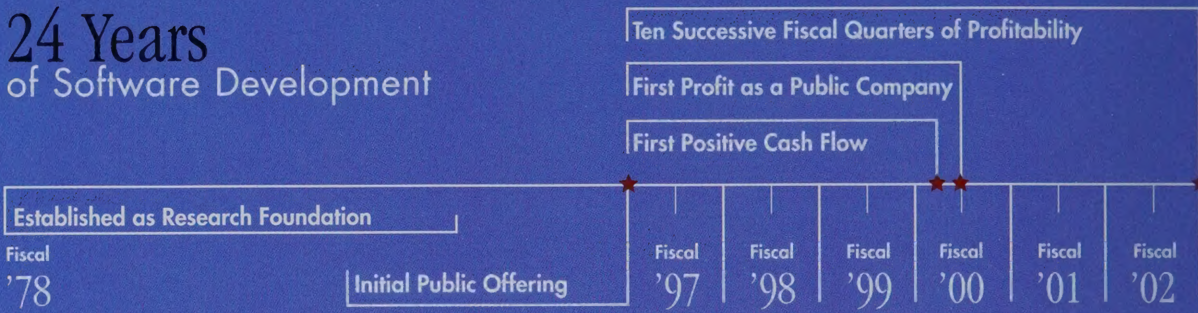


COMPUTER
MODELLING
GROUP LTD.

2002
annual report to shareholders

24 Years
of Software Development



Monthly Average
Share Price and Volume

Contents

Corporate
Profile

CMG's focus is a commitment to offer the best reservoir modelling solutions for its oil and gas industry clients. Beginning as a research foundation 24 years ago, CMG is now the leading supplier of advanced process reservoir simulation software in the world to over 200 oil companies, consulting firms and research centres in 37 countries. As technology, industry and global economics change, CMG's goal to continually improve its products and services to meet the challenge never falters. CMG is headquartered in Calgary and is listed on the TSX Venture Exchange, symbol CPU.

Highlights

(Thousands of dollars)	2002	2001	2000	1999	1998
Software licenses revenues	**6,870**	6,509	6,408	5,384	4,910
Consulting and contract research revenues	**2,843**	2,408	2,132	2,407	3,376
Total revenue, including interest and foreign exchange	**9,927**	9,310	8,555	8,130	8,612
Gross profit	**6,283**	5,528	4,312	1,770	3,163
Gross profit (%)	**63%**	59%	50%	22%	37%
Settlement of research and development agreement	**749**	–	–	–	–
Earnings (loss) before future income taxes	**2,356**	1,038	(827)	(4,276)	(2,119)
Earnings (loss) for the year	**2,356**	1,464	(827)	(4,276)	(2,119)
Cash flow from (used for) operations	**1,777**	1,610	700	(3,111)	(1,461)
Earnings (loss) per share – basic *($)*	**0.32**	0.17	(0.10)	(0.50)	(0.25)
Cash flow per share – basic *($)*	**0.24**	0.19	0.08	(0.36)	(0.17)
Bank debt	**–**	–	–	–	–
Weighted average shares outstanding	**7,399**	8,575	8,572	8,571	8,571
Book value per share *($)*	**0.87**	0.57	0.40	0.50	0.99

Annual Meeting

CMG's annual meeting of shareholders will be held at the office of Macleod Dixon, Barristers and Solicitors at 3700, 400 – 3rd Avenue SW, Calgary, Alberta on Wednesday, August 7, 2002 at 10:00 a.m.
In addition to the formal meeting, CMG will present an update on its progress.
All shareholders are invited to attend, but if unable to, should send in their proxy material to Computershare.

To Our Shareholders

CMG's fiscal 2002 financial results mark a record high in our five-year history as a public company. CMG generated $9.9 million of revenues, realized $6.3 million of gross profit at a 63 percent gross profit margin, generated earnings of $2.4 million ($0.32 per share) and produced $1.8 million of cash flow from operations ($0.24 per share) in the year ended March 31, 2002.

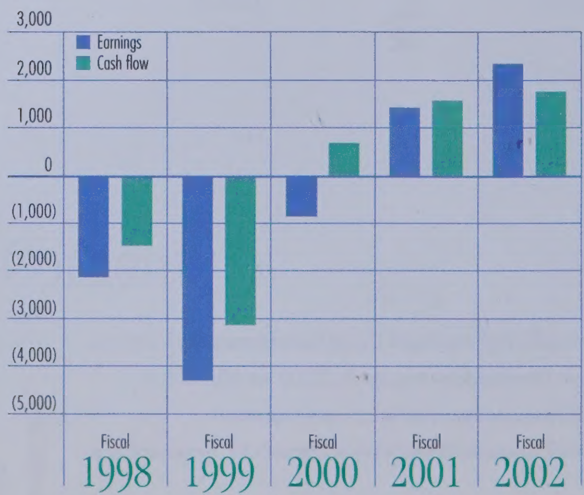
CMG's earnings for fiscal 2002 include an income item of $0.7 million resulting from the renegotiation and settlement of a 1997 research and development agreement. At March 31, 2002, CMG has $5.2 million in cash, no debt and a track record of consistently producing both earnings and cash flow from operations in its last ten quarters.

We have been focused over the last three years on building the financial strength of CMG. Two years ago in our report on the year ended March 31, 2000, we were first able to announce positive quarterly earnings. Since then we have consistently improved our financial results, strengthened liquidity by growing working capital from $2.5 million to $5.0 million, and more than doubled our book value per share from $0.40 a share to $0.87 a share at March 31, 2002.

In combination with this focus on building CMG's financial strength has been our dominance in the simulation of advanced recovery processes of petroleum reservoirs. With declining petroleum production from conventional means, advanced recovery processes are required to increase recovery from known petroleum reserves. CMG believes that the advanced process reservoir simulation market is the most rapidly growing segment of the simulation marketplace. These advanced processes are inherently complex and costly as compared to conventional extraction methods and CMG's advanced process simulators are valuable tools for our clients in both the evaluation and implementation of these processes on their reserves.

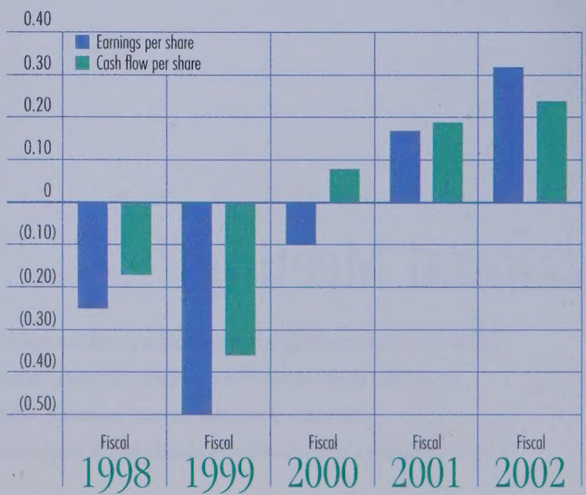
Earnings and Cash Flow

($ thousands)

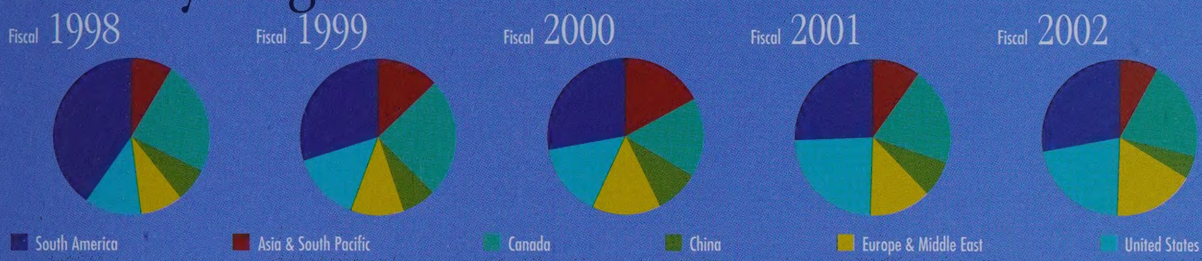


Earnings and Cash Flow per Share

($ per share)



Sales by Region



CMG's technology is ever changing; we are constantly developing innovative ways to increase the use of our software by overcoming existing technological barriers and by being at the forefront in growing new markets. Technological barriers are being overcome by CMG through advancements in PC parallel computing and flexible gridding technologies to name just a few. An investment by CMG in simulating processes of the future has been the development of unique features in our compositional simulator, GEM, to predict behavior of methane production in coal beds. As a result of our ability to simulate coalbed methane production, CMG, in combination with a consortium of six other Canadian companies is participating in a three-year CIDA/China bilateral project in Enhanced Coalbed Methane (ECBM) Technology Transfer.

CMG believes that our strategy of investment in research and development to meet our clients future needs will ensure CMG's leadership position in growing new simulation markets.

In addition, CMG continues with its business strategy in forming partner relationships to help fuel our future growth and create demand for our products. During fiscal 2002, joint venture projects in the Middle East contributed to our earnings as did jointly funded research projects, which also benefit the company through the impact on future years' products. Consulting services continued to experience high demand due to the high price of oil and are diligently managed to maximize our profits on each and every job, while influencing licensing of our software after delivery of the consulting projects.

With a view that software license sales will continue to grow at a steady pace in the coming fiscal year, CMG has started to invest significant portions of earnings in the future development of the company. Planned investment in additional personnel and marketing programs will not result in immediate returns but will provide the base to achieve stronger revenue growth in the future. CMG's outlook for fiscal 2003 is somewhat tempered by both the political and economic uncertainties in a number of geographic regions around the world and these conditions will be closely monitored over the coming year.

There are many to thank for CMG's record achievements over this last year. I would like to express my sincere appreciation to our staff, executive group and Board of Directors for their support and contribution to our success.

Kenneth M. Dedeluk
President and
Chief Executive Officer

May 28, 2002

Products
and Services

IMEX STARS GEM WinProp Builder Results

Over the past twenty-four years, including CMG's history as a research foundation prior to becoming a public company, CMG has remained focused on the development and delivery of world-class reservoir simulation software aimed at assisting oil and gas companies to maximize recovery from their reservoirs.

Product Line

IMEX – used to simulate conventional "black oil" reservoirs. IMEX is a 3-phase, 3D black oil reservoir simulator, which incorporates all the functionality required for full-field reservoir simulation studies.

STARS – used to analyze heavy oil, tar sands and chemically stimulated reservoirs. STARS is a world leading 4-phase, 3D reservoir simulator capable of modelling a wide range of thermal and chemical processes well beyond the capabilities of conventional black oil and compositional simulators.

GEM – used to model gas condensate, volatile oil, asphaltene, VAPEX and Enhanced CoalBed Methane reservoirs. GEM is a generalized Equation-of-State compositional reservoir simulator, which includes the ability to accurately model complex heterogeneous faulted structures, primary, secondary and tertiary recovery processes, utilizing a wide range of well management scenarios.

WINPROP – used for modelling the phase behaviour and properties of reservoir fluids. WINPROP is a Windows-based software application, which assists the petroleum engineers to better understand the fluid interaction as a reservoir is being produced.

BUILDER – used to design and prepare reservoir models. Builder's design allows for data to be imported in a variety of methods from industry mapping packages, digitized directly, "dragged-and-dropped" from Excel spreadsheet data or tabular data and from other third-party applications.

RESULTS – used to provide the visualization and animation for the simulator products. With Results one can visualize input data and output model results in a variety of graphs, tabular reports, 2D aerial maps views, 2D cross section views and 3D perspective views and 3D stereographic views. Simulation output can be animated with time to highlight important recovery processes. Displayed images can also be translated into bitmaps, JPEG files, or AVI movies and imported into the most popular presentation and word processing software applications.

The developments in these products have made CMG the leader in advanced recovery process simulation.

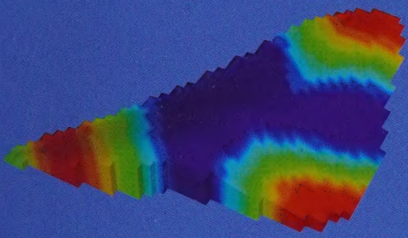
Product Development

Current advancements in recovery mechanisms incorporated in CMG simulators are:

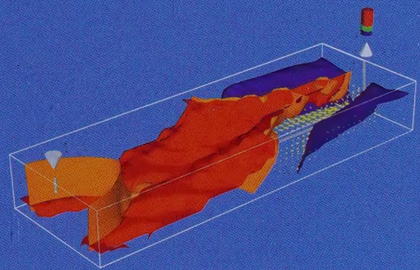
Thermal – SAGD, Air Injection, THAI

Chemical – Asphaltene, Foams, Gels, VAPEX, Foamy Oil

Compositional – Enhanced Coalbed Methane, CO_2 Sequestration



CO_2 Injection



Toe to Heel Air Injection (THAI)

The topic of CO_2 Sequestration is in the forefront of consideration given the Kyoto accord to cut greenhouse gas emissions. CMG's strategy of positioning itself to play an important role in experimenting with new processes and technology and its participation with research institutions and industry sponsored events are crucial to CMG's goal of becoming the leading supplier of PC based reservoir simulation technologies in the world.

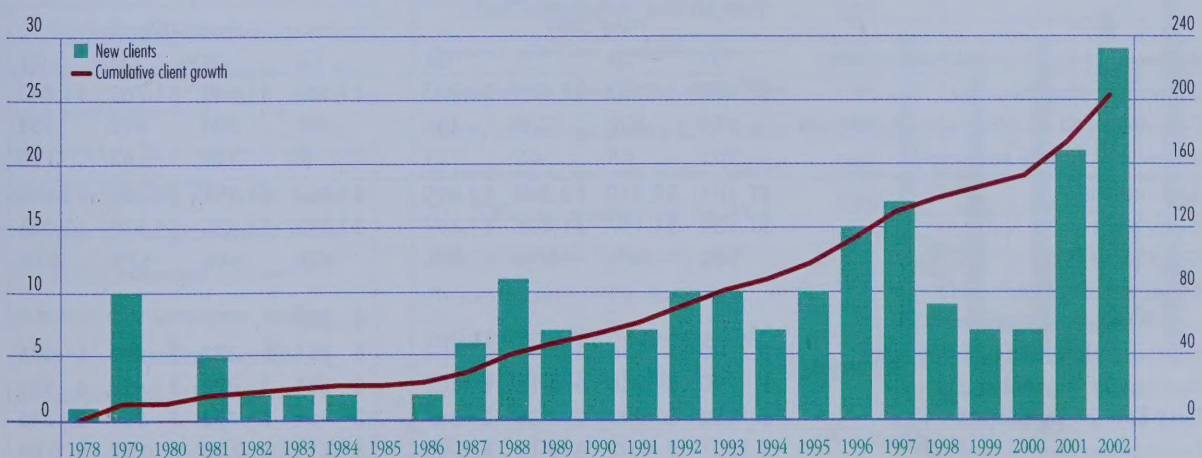
In combination with the supply of leading edge software technology, CMG performs both funded research and consulting services for its many clients around the world. Jointly funded research projects play an important role in experimenting with new recovery processes and technology that will be used in future years' products. As a condition of accepting funded research, CMG ensures that ownership of the research remains a CMG asset.

Provision of consulting services, which are typically of a highly complex nature, enables CMG to continually test the boundaries of its software and provides the opportunity to increase software license sales to both new and existing customers.

Marketing

Today, CMG has over 200 customers in 37 countries and supports these clients from any of its five sales offices. In addition, CMG's strategic alliances with third party relationships around the world, be they formal joint ventures, agency relationships, business alliances, are utilized to augment the work of CMG marketing personnel in growing our business.

Growth
of New Clients



Management's
Discussion and Analysis

The fiscal year ended March 31, 2002 was CMG's most successful year in its five-year history as a public company. CMG reported revenues of $9.9 million for the year ended March 31, 2002, earnings of $2.4 million ($0.32 per share) and cash flow from operations of $1.8 million ($0.24 per share).

These results compare to revenues of $9.3 million, earnings of $1.5 million ($0.17 per share) and cash flow from operations of $1.6 million ($0.19 per share) for the year ended March 31, 2001.

Results from both the current year ended March 31, 2002 and the comparative year ended March 31, 2001 include the impact of unusual items. CMG's earnings for the year ended March 31, 2002 include an income item of $749,143 resulting from the renegotiation and settlement of a 1997 research and development agreement. The comparative earnings for the year ended March 31, 2001 include $426,000 of future income tax benefits.

Revenues

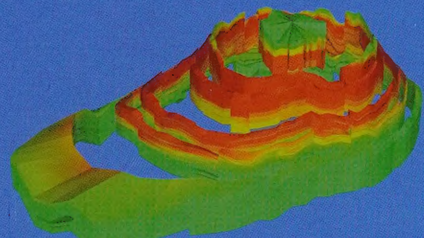
CMG's revenues are comprised of software license sales – 69 percent (2001 – 70 percent), consulting and contract research sales – 29 percent (2001 – 26 percent), and interest and foreign exchange – 2 percent (2001 – 4 percent).

Software license revenues amounted to $6.9 million for the year ended March 31, 2002, up 6 percent from the $6.5 million in revenues last year. CMG's software license revenues can be further categorized between annuity/maintenance software licensing, which is generally for a term of one year or less, and perpetual software licensing, whereby the customer purchases the then current version of software(s) and has the right to use that version in perpetuity. Approximately 75 percent (2001 – 78 percent) of software license revenues were generated from

Quarterly
Performance

	Fiscal 2001				Fiscal 2002			
(Thousands of dollars unless otherwise stated)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Software licenses revenues	$1,404	$1,523	$1,726	$1,855	$1,583	$1,680	$1,760	$1,847
Consulting and contract research revenues	592	602	729	485	489	590	812	952
Interest and foreign exchange	105	85	45	159	(6)	121	63	36
Total revenue	$2,101	$2,210	$2,500	$2,499	$2,066	$2,391	$2,635	$2,835
Gross profit	$1,139	$1,197	$1,495	$1,697	$1,273	$1,535	$1,619	$1,856
Gross profit (%)	54%	54%	60%	68%	62%	64%	61%	65%
Settlement of research and development agreement	–	–	–	–	$ 749	–	–	–
Earnings before future income taxes	$ 90	$ 156	$ 390	$ 402	$ 881	$ 392	$ 498	$ 585
Earnings for the quarter	$ 90	$ 156	$ 816	$ 402	$ 881	$ 392	$ 498	$ 585
Cash flow for the quarter	$ 232	$ 297	$ 534	$ 547	$ 151	$ 420	$ 560	$ 646
Earnings per share – basic *($)*	$ 0.01	$ 0.02	$ 0.10	$ 0.05	$ 0.11	$ 0.05	$ 0.07	$ 0.08
Cash flow per share – basic *($)*	$ 0.03	$ 0.03	$ 0.06	$ 0.06	$ 0.02	$ 0.06	$ 0.08	$ 0.09

Complex Geology



Advanced Gridding

annuity/maintenance licensing and 25 percent (2001 – 22 percent) from perpetual licensing. The increase in software license revenues was generally due to a combination of sales to new customers and increased sales to existing customers.

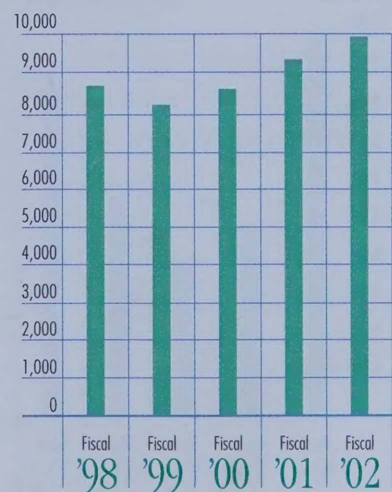
Over its history as a public company, CMG has maintained a significant percentage of repeat customers and is finding that a large percentage of its customers who have acquired perpetual software licenses are purchasing maintenance licenses in subsequent years. At March 31, 2002, CMG has pre-sold $2.4 million of license revenue relating to its next fiscal year ending March 31, 2003.

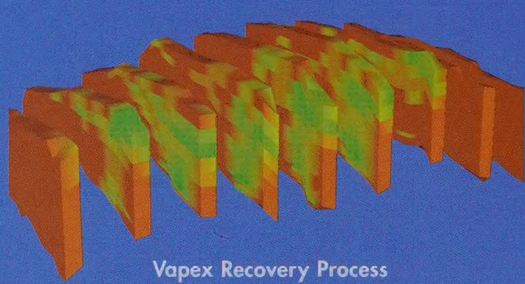
Consulting and contract research revenues totaled $2.8 million for the year ended March 31, 2002, compared to $2.4 million for the year ended March 31, 2001. The revenues for the year ended March 31, 2002 reflect four quarterly payments of a seven-year funding commitment resulting from the renegotiation of a 1997 research and development agreement. The amended terms negotiated result in CMG receiving on a quarterly basis through January 1, 2008, $125,000 cash; or the holder of the Non-Voting Shares will surrender to CMG a specified number of shares for cancellation (starting at 108,571 per quarter through fiscal 2002 and declining through the eight years to 57,699 per quarter through fiscal 2008); or CMG will receive a pro-rata combination of cash and shares for cancellation. In the year ended March 31, 2002, CMG received 434,284 Non-Voting Shares for cancellation and as a result recorded $0.4 million in contract research revenues.

CMG's consulting and contract research activities, excluding the impact of the cancellation of the Non-Voting Shares, generated $2.5 million in revenues in the year ended March 31, 2002, up slightly from the $2.4 million recorded in the prior year. As can be seen in the quarterly performance table, consulting and contract research activities are variable by their nature as both the

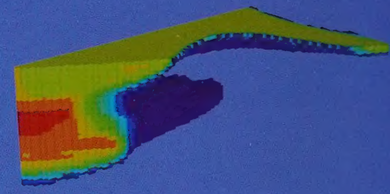
Software License Sales
($ thousands)

Total Revenues
($ thousands)



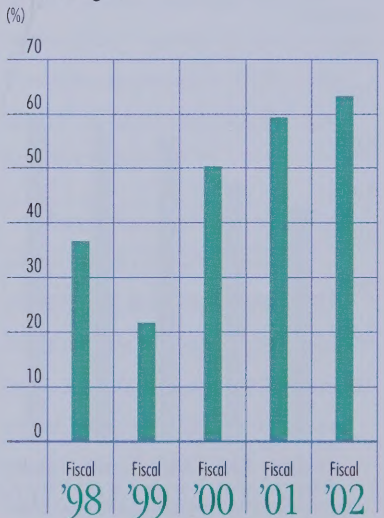


Vapex Recovery Process

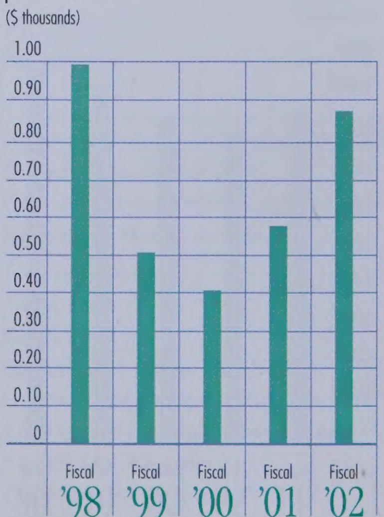


Cyclic Steam

Gross Profit
Percentages



Book Value
per Share



timing and dollar magnitude of work are dependent on activities and budgets within client companies. The stability in CMG's consulting and contract research sales in the current year as compared to previous years is attributable to strong activity levels in the petroleum industry. CMG manages the variable nature of this revenue stream by minimizing fixed cost burdens and by engaging third party contractors on a project by project basis.

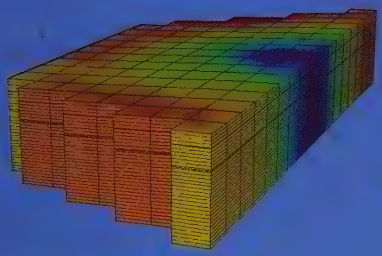
At March 31, 2002, CMG has recorded approximately $0.5 million of pre-sold revenue relating to consulting and contract research revenues for projects to be completed in the fiscal year ended March 31, 2003.

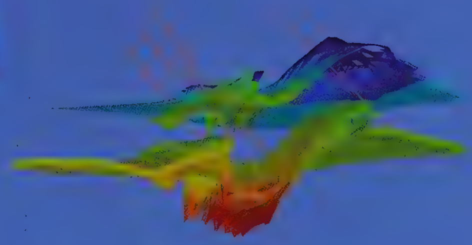
Interest and foreign exchange amounted to $0.2 million in the year ended March 31, 2002, down from $0.4 million from the comparative year. This decrease is due to a combination of lower prevailing investment interest rates and fluctuations in the Canadian dollar against the US dollar.

Expenses

CMG's total cash expenses amounted to $7.8 million for the year ended March 31, 2002, up from $7.7 million expended in the prior year.

As a technology and service company, CMG's most significant cost area is its people. Approximately 73 percent (2001 – 72 percent) of CMG's $7.2 million (2001– $7.1 million) expended in fiscal 2002 on marketing, direct consulting, general and administrative, and product research and development costs directly relates to manpower. A year ago, CMG had anticipated that it would increase its fixed cash costs upwards by up to 11 percent in its


ASP Process


Enhanced Coal Bed Methane

2002 fiscal year for investment in additional manpower and to enhance its marketing programs. As a result of lower than anticipated revenues in the first half of this year, the decision to implement these investment plans was delayed until late in fiscal 2002, resulting in a 2 percent increase in fixed cash costs over the year ended March 31, 2001. CMG has started to implement its planned investment strategy and is in the process of increasing its manpower in the marketing, consulting and product research and development areas. In addition, CMG is planning enhancements to its marketing programs with the target to produce stronger revenue growth in the future.

The next largest expenditure component for CMG is on third party contract costs with CMG expending $0.4 million in fiscal 2002 compared to $0.5 million in the prior year. These costs are variable in nature and are incurred only when CMG has an associated revenue contract.

Investment in Research and Development

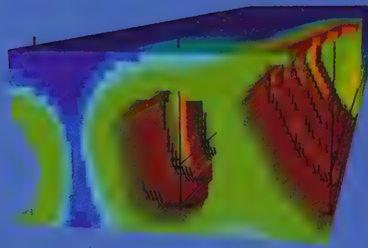
CMG continues to maintain its strategy of investment in leading edge technology and invested $2.6 million (2001– $2.4 million) on these endeavors in the year ended March 31, 2002, all of which is expensed to earnings annually. A similar investment amount, adjusted for planned increases as indicated above, is expected for the fiscal year ending March 31, 2003. It is this investment in research and development that allows CMG to dominate the advanced process simulation market and achieve CMG's goal of becoming the leading supplier of PC based reservoir simulation technologies in the world.

Liquidity and Capital Resources

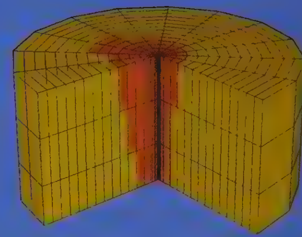
CMG generated $1.8 million ($0.24 per share) of cash flow from operations in the year ended March 31, 2002, a 10 percent increase from the $1.6 million ($0.19 per share) generated in the year ended March 31, 2001.

CMG's accounts receivable reflects an increase of $1.1 million at March 31, 2002 as compared to March 31, 2001. The increase in accounts receivable is due to a combination of both increased sales and the timing of sales in the year as compared to the same measurement point last year. In addition, CMG invested $0.3 million in capital additions, which was spent primarily on computer equipment. CMG's level of deferred revenue reflected a net reduction of $0.5 million from March 31, 2001. Deferred revenue will fluctuate depending upon contracts signed with terms extending beyond the current year.

CMG has a capital budget of $0.4 million for fiscal 2003, all of which will be funded internally from operations.



SAGD/Single Well SAGD



Wax Deposition Modelling

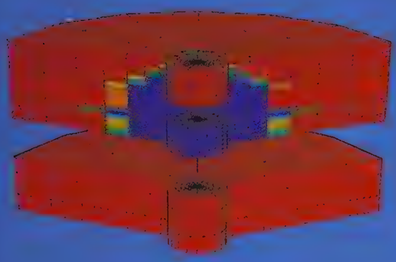
At March 31, 2002, CMG's liquidity as measured by working capital, is $5.0 million, an increase of $1.5 million from its $3.5 million position a year ago. In addition, CMG has no debt on its balance sheet and has access to a $1.0 million line of credit with its principal banker, none of which has been drawn at March 31, 2002.

During the fiscal year ended March 31, 2002, 600,390 shares of CMG's public float were traded on the TSX Venture Exchange (formerly known as the Canadian Venture Exchange). CMG's share prices ranged from $0.70 to $1.11 per share and last traded, prior to year end, on March 22, 2002 at $1.05 for a year end market capitalization of $7.4 million.

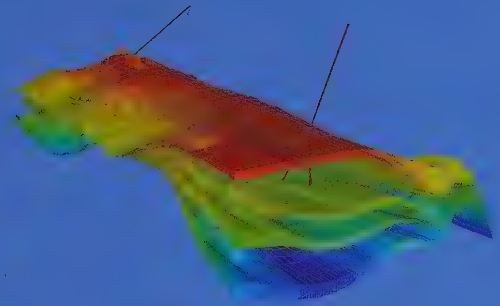
During the year ended March 31, 2002, CMG's shareholders approved the Amended and Restated Research and Development Agreement ("Agreement") between CMG and CMG Reservoir Simulation Foundation ("the Foundation"), the sole holder of CMG's Non-Voting Shares. The Agreement terms as negotiated resulted in CMG receiving as a one-time settlement, 1,085,714 Non-Voting Shares for cancellation. In addition, on a quarterly basis through January 1, 2008, the Foundation is to remit to CMG: $125,000 cash; or will surrender a specified number of shares; or will provide a pro-rata combination of cash and shares, as more explicitly detailed above. The maximum number of shares that could potentially be surrendered for cancellation pursuant to this Agreement is 3,351,394 Non-Voting Shares, of which 1,617,712 Non-Voting Shares have been surrendered to meet the Foundation's commitment through to June 30, 2002. At May 28, 2002, CMG's issued and outstanding shares are 6,964,581, which is comprised of 3,628,721 Common Shares and 3,335,860 Non-Voting Shares.

Business Risk

CMG's customers are oil and gas companies and it might therefore be assumed that CMG's financial results are significantly impacted by oil commodity prices. CMG's actual experience of growth in software license sales during volatile oil price markets confirms the belief that software license sales are influenced more by the utility of the software as opposed to the prevailing commodity price. However, volatility in oil commodity prices does have an impact on CMG's consulting business. CMG manages this risk by minimizing its fixed cost burden in this area.



Foam/Gel/Chemical



Multi-Lateral Wells

CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as approximately 79 percent of CMG's product revenues in fiscal 2002 were denominated in US dollars. Approximately 30 percent of CMG's costs in fiscal 2002 were denominated in US dollars and provided a partial hedge against the fluctuation in currency exchange between the US and the Canadian dollar on revenues. CMG's residual revenues and costs are primarily denominated in Canadian dollars and CMG's policy is to convert its excess US dollar cash into Canadian dollars when received.

CMG sells its products and services in 37 countries worldwide, some of these countries have greater economic and political risk than experienced in North America and as a result there may be greater risk associated with sales in those jurisdictions. CMG manages this risk by invoicing for the full license term in advance in the majority of software license sales and by invoicing monthly for consulting and contract research services on a percentage-of-completion basis. In addition, CMG takes out specific insurance on a limited number of sales depending upon the size of the sale and CMG's view of the country risk at the time of sale.

Although competition is very active, CMG believes that it has distinct competitive advantages. These advantages consist of proven technology, which is comprehensive in product scope, international presence and recognition as a major independent supplier. Sustaining competitive advantage is another issue that CMG addresses by making a significant ongoing commitment to research and development spending.

Outlook

The oil and gas industry is faced with both political and economic uncertainties in a number of geographic regions around the world. It is difficult to foresee how, if at all, these will impact CMG in the coming year. It is anticipated that CMG will continue its steady growth trend in its core business activities and continue to exhibit its ability to produce strong profits by closely managing business expenditures in the ensuing year.

Management's
Statement of Responsibility

Management is responsible for the accompanying consolidated financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada applied within acceptable levels of materiality. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at balance sheet date. Financial information contained in the annual report is consistent with the consolidated financial statements.

Management maintains appropriate accounting and internal control systems to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and to facilitate the preparation of relevant, reliable financial information on a timely basis. At the annual meeting, the shareholders appoint an independent firm of chartered accountants to audit the consolidated financial statements. Annually, the directors appoint an audit committee which meets with management and the external auditors to review the consolidated financial statements and the annual audit. In fiscal year 2002, the audit committee was composed of three non-management directors. The consolidated financial statements which follow have been approved by the board of directors on the recommendation of the audit committee.

Janet M. Taylor
Vice President, Finance
and Chief Financial Officer
April 26, 2002

Kenneth M. Dedeluk
President and
Chief Executive Officer

Auditors' Report
to the Shareholders

We have audited the consolidated balance sheets of Computer Modelling Group Ltd. as at March 31, 2002 and 2001 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test-basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Calgary, Canada
April 26, 2002

Consolidated
Balance Sheets

March 31,	2002	2001
Assets		
Current assets		
Cash and cash equivalents *(note 2)*	$ 5,165,753	$ 5,158,047
Accounts receivable	3,684,880	2,561,433
Prepaid expenses	160,338	172,843
	9,010,971	7,892,323
Fixed assets *(note 3)*	348,246	219,155
Deferred charges *(note 4)*	386,441	757,108
Future income taxes *(note 5)*	426,000	426,000
	$ 10,171,658	$ 9,294,586
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,096,106	$ 975,415
Current portion of deferred revenue	2,942,709	3,400,651
	4,038,815	4,376,066
Deferred revenue	–	29,725
Shareholders' equity		
Share capital *(note 6)*	10,452,618	10,646,923
Deficit	(4,319,775)	(5,758,128)
	6,132,843	4,888,795
	$ 10,171,658	$ 9,294,586

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director *Director*

Consolidated Statements
of Earnings and Deficit

Years Ended March 31,	2002	2001
Revenue		
Software licenses	$ 6,870,417	$ 6,508,642
Consulting and contract research	2,842,868	2,407,810
Interest and foreign exchange	213,896	393,857
	9,927,181	9,310,309
Cost of Sales		
Marketing expenses	2,801,217	2,789,545
Direct consulting expenses	397,044	472,901
Third-party contract costs	445,975	520,194
	3,644,236	3,782,640
Gross Profit	6,282,945	5,527,669
General and administrative expenses	1,490,838	1,447,854
Depreciation and amortization	486,040	477,447
Product research and development costs	2,563,336	2,447,913
Settlement of research and development agreement *(note 6c)*	(749,143)	–
Earnings before income and other taxes	2,491,874	1,154,455
Income and other taxes *(note 5)*		
Foreign withholding taxes	133,000	107,759
Other current taxes	3,108	8,903
Future income taxes (benefit)	–	(426,000)
	136,108	(309,338)
Earnings for the year	2,355,766	1,463,793
Deficit, beginning of year	(5,758,128)	(7,221,921)
Excess of settlement amount over book value on cancellation of non-voting shares *(note 6c)*	(917,413)	–
Deficit, end of year	$ (4,319,775)	$ (5,758,128)
Weighted average number of shares outstanding	7,398,632	8,575,409
Per share		
Earnings for the year		
Basic	$ 0.32	$ 0.17
Diluted	$ 0.30	$ 0.17

See accompanying notes to consolidated financial statements.

Consolidated Statements
of Cash Flows

Years Ended March 31,	2002	2001
Cash provided by (used for)		
Operating		
Earnings for the year	$ 2,355,766	$ 1,463,793
Depreciation and amortization	533,821	572,427
Settlement of research and development agreement	(749,143)	–
Contract research revenue	(363,713)	–
Future income taxes (benefit)	–	(426,000)
Cash flow from operations	1,776,731	1,610,220
Changes in non-cash working capital		
Accounts receivable	(1,123,447)	458,433
Accounts payable and accrued liabilities	120,691	146,026
Prepaid expenses	12,505	15,847
	786,480	2,230,526
Financing		
Deferred revenue	(487,667)	(583,634)
Issue of common shares	1,138	553
	(486,529)	(583,081)
Investing		
Fixed asset additions	(292,245)	(112,743)
Increase in cash and cash equivalents	7,706	1,534,702
Cash and cash equivalents, beginning of year	5,158,047	3,623,345
Cash and cash equivalents, end of year	$ 5,165,753	$ 5,158,047
Per share		
Cash flow from operations for the year		
Basic	$ 0.24	$ 0.19
Diluted	$ 0.23	$ 0.18

See accompanying notes to consolidated financial statements.

Notes
to Consolidated Financial Statements

Years ended March 31, 2002 and 2001

1 Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, all 100 percent owned. All inter-company transactions have been eliminated.

(b) Revenue Recognition

Software license sales are recognized as revenue upon the fulfillment of all significant obligations under the terms of the license agreements. Any software license fees received relating to a future fiscal period are deferred and recognized in the appropriate future period. Both consulting and contract research revenue are recorded on a percentage-of-completion basis whereby revenues and costs are recorded in operations based on work completed.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the time of purchase. These cash equivalents consist primarily of term deposits and are stated at cost, which approximates market value.

(d) Fixed Assets

Fixed assets are recorded at cost. Leases that transfer substantially all the benefits and risks of ownership to the Company are accounted for as capital leases whereby the asset values and related obligations are recorded in the consolidated financial statements.

Depreciation is provided using the following annual rates and methods that are expected to amortize the cost of the fixed assets over their estimated useful lives:

Computer equipment	33 1/3% straight-line
Furniture and equipment	20% straight-line
Leasehold improvements	Straight-line over the lease term

(e) Product Research and Development Costs

All costs of product research and development are expensed to operations as incurred as the impact of both technological changes and competition require the Company to continually enhance its products on an annual basis. Product research and development costs include depreciation of $47,781 for the year ended March 31, 2002 (2001 – $94,980).

(f) Deferred Charges

Costs associated with the establishment of new international sales offices are deferred, for a period not to exceed two years, until such offices are fully operational. After reaching operational status, the deferred sales office costs are amortized to operations over a period of five years or are written down when it is determined that the costs will not be fully recovered from related future revenues.

(g) Foreign Currency

The Company's subsidiaries are considered to be integrated operations. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end while other consolidated balance sheet items are translated at historic rates.

Revenues and expenses are translated at the rate of exchange in effect on the transaction dates. Realized and unrealized foreign exchange gains and losses are included in operations in the year in which they occur.

(h) Income Taxes

The Company provides for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax liabilities and assets are measured using tax rates expected to apply in the years in which temporary differences are expected to be

recovered or settled. Any change to the net future income tax assets and liabilities is included in operations in the year it occurs.

(i) Per Share Amounts

Basic earnings per share and cash flow from operations per share are computed by dividing earnings and cash flow from operations by the weighted average number of Common and Non-Voting Shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

In computing diluted earnings and cash flow from operations per share, 341,598 shares were added to the weighted average number of Common Shares outstanding during the year ended March 31, 2002 (2001 – 209,486 shares) for the dilutive effect of employee stock options.

(j) Stock-Based Compensation Plan

The Company has a stock-based compensation plan that is described in Note 6(d). No compensation expense is recognized when stock options are issued. Consideration received on exercise of stock options is credited to share capital.

(k) Use of Estimates and Assumptions

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses for the year. Actual results may differ from such estimates and the differences could be material.

2 Cash and Cash Equivalents

	2002	2001
Cash	**$ 1,453,256**	$ 1,027,915
Term deposits	**3,712,497**	4,130,132
	$ 5,165,753	$ 5,158,047

3 Fixed Assets

2002	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	**$ 896,044**	**$ 669,690**	**$ 226,354**
Furniture and equipment	**348,119**	**242,831**	**105,288**
Leasehold improvements	**171,840**	**155,236**	**16,604**
	$ 1,416,003	**$ 1,067,757**	**$ 348,246**

2001	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 827,089	$ 684,251	$ 142,838
Furniture and equipment	273,900	203,448	70,452
Leasehold improvements	153,567	147,702	5,865
	$ 1,254,556	$ 1,035,401	$ 219,155

4 Deferred Charges

	2002	2001
Deferred sales offices costs	**$ 2,365,412**	$ 2,365,412
Accumulated amortization and write-down	**1,978,971**	1,608,304
	$ 386,441	$ 757,108

5 Income and Other Taxes

The provision for income and other taxes reported differs from the amount computed by applying the combined Canadian Federal and Provincial statutory rate to the earnings before income and other taxes. The reasons for this difference and the related tax effects are as follows:

	2002	2001
Statutory tax rate	**41.12%**	44.37%
Expected income tax	**$ 1,024,659**	$ 512,232
Recognized benefit of future income tax assets	**(1,042,209)**	(956,036)
Permanent differences	**17,550**	17,804
Foreign withholding and other taxes	**136,108**	116,662
	$ 136,108	$ (309,338)

The components of the Company's net future income tax asset at March 31, 2002 are as follows:

	Canada	Other	Total
Benefit of non-capital/net operating losses	$ 1,356,711	$ 186,306	$ 1,543,017
Depreciable assets	375,209	–	375,209
	$ 1,731,920	$ 186,306	$ 1,918,226
Valuation allowance			1,492,226
Future income tax asset			$ 426,000

The Canadian non-capital loss carryforwards of $3.7 million expire in 2006. The net operating losses in other countries expire as follows: $0.1 million in 2004 and $0.5 million between 2012 and 2017.

6 Share Capital

(a) Authorized

An unlimited number of Common Shares, an unlimited number of Non-Voting Shares, and an unlimited number of Preferred Shares, issuable in series.

(b) Issued

	Common Shares		Non-Voting Shares	
	Number	Consideration	Number	Consideration
Balance – March 31, 2000	3,145,683	$ 9,948,374	5,428,572	$ 697,996
Issued for cash – stock options exercised at $0.28 per share	1,975	553	–	–
Converted into Common Shares	50,000	6,429	(50,000)	(6,429)
Balance – March 31, 2001	3,197,658	9,955,356	5,378,572	691,567
Issued for cash – stock options exercised at $0.28 per share	4,063	1,138	–	–
Cancelled pursuant to Amended and Restated Research and Development Agreement	–	–	(1,519,998)	(195,443)
Converted into Common Shares	425,000	54,646	(425,000)	(54,646)
Balance – March 31, 2002	**3,626,721**	**$ 10,011,140**	**3,433,574**	**$ 441,478**

The Non-Voting Shares are convertible into an equivalent number of Common Shares at any time at the option of the holder.

(c) Non-Voting Shares

On January 30, 2001, the Company and CMG Reservoir Simulation Foundation ("the Foundation"), the sole holder of the Non-Voting Shares, entered into an Amended and Restated Research and Development Agreement ("Agreement"), which was approved by the Company's shareholders on May 25, 2001. The Agreement terms as negotiated resulted in the Company receiving as a one-time settlement, 1,085,714 Non-Voting Shares of the Company for cancellation, and

then on a quarterly basis commencing as of April 1, 2001 through January 1, 2008: $125,000 cash; or the surrender to the Company of a specified number of shares for cancellation (starting at 108,571 per quarter through fiscal 2002 and declining through the eight years to 57,699 per quarter through fiscal 2008); or a pro-rata combination of cash and shares for cancellation. The maximum number of shares that could be potentially surrendered for cancellation through January 1, 2008 pursuant to this Agreement is 3,351,394 Non-Voting Shares.

During the year ended March 31, 2002, the Foundation surrendered a total of 1,519,998 Non-Voting Shares to the Company. This amount consisted of the 1,085,714 Non-Voting Shares that were required to be surrendered immediately upon ratification by the Company's shareholders and the 434,284 Non-Voting Shares that were required to be tendered on a quarterly basis. Subsequent to March 31, 2002, the Foundation surrendered an additional 97,714 Non-Voting Shares for its April 1, 2002 commitment pursuant to this Agreement.

(d) Stock-Based Compensation Plan

The Company has reserved 848,280 Common Shares for issuance to employees and directors pursuant to the Company's Stock Option Plan. Pursuant to the Amended and Restated Stock Option Plan, the maximum term of an option granted cannot exceed five years from the date of grant. The stock options currently outstanding have been granted for a term not to exceed five years. These outstanding stock options vest as to 50 percent after the first year anniversary, from date of grant, and then vest as to 25 percent of the total options granted, after each of the second and third year anniversary dates. Changes in options in the two years ended March 31, 2002 were as follows:

	2002			2001		
	Options Granted		Weighted Average Exercise Price	Options Granted		Weighted Average Exercise Price
Outstanding at beginning of year	**636,150**	**$**	**0.42**	329,200	$	0.28
Granted:						
Expiry May 16, 2005	**–**		**–**	89,950		0.60
Expiry August 4, 2005	**–**		**–**	223,950		0.54
Expiry February 6, 2006	**–**		**–**	3,000		0.86
Expiry June 11, 2006	**30,000**		**0.89**	–		–
Cancelled:						
Expiry December 15, 2003	**(687)**		**0.28**	(7,975)		0.28
Exercised:						
Expiry December 15, 2003	**(4,063)**		**0.28**	(1,975)		0.28
Outstanding at end of year	**661,400**	**$**	**0.44**	636,150	$	0.42
Options exercisable at March 31, 2002	**472,950**	**$**	**0.37**	239,438	$	0.28

The exercise price of all options outstanding at March 31, 2002 are as follows: 314,500 at $0.28 (expiry December 15, 2003); 89,950 at $0.60 (expiry May 16, 2005); 223,950 at $0.54 (expiry August 4, 2005); 3,000 at $0.85 (expiry February 6, 2006); and 30,000 at $0.89 (expiry June 11, 2006).

7 Other Information

(a) Commitments

The Company has lease commitments relating to its office premises. The minimum operating lease rental payments pursuant to these contracts are estimated to be: 2003 – $388,000; 2004 – $340,000; and 2005 – $222,000.

(b) Line of Credit

The Company has arranged for a $1.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility and/or letters of credit. As at March 31, 2002, no amounts have been drawn on this line of credit.

(c) Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

8 Segmented Information

Operating Segments

Year ended March 31, 2002	Software Licenses	Consulting and Contract Research	Corporate	Total
Revenue	$ 6,870,417	$ 2,842,868	$ 213,896	$ 9,927,181
Gross profit	4,399,239	1,669,810	213,896	6,282,945
General and administrative expenses			1,490,838	1,490,838
Depreciation and amortization	452,407	12,865	20,768	486,040
Product research and development costs			2,563,336	2,563,336
Settlement of research and development agreement			(749,143)	(749,143)
Income and other taxes	14,212	118,788	3,108	136,108
Earnings (loss) for the year	$ 3,932,620	$ 1,538,157	$ (3,115,011)	$ 2,355,766
Total Assets	$ 3,404,020	$ 917,811	$ 5,849,827	$ 10,171,658
Capital Expenditures	$ 126,073	$ 34,139	$ 132,033	$ 292,245

Operating Segments

Year ended March 31, 2001	Software Licenses	Consulting and Contract Research	Corporate	Total
Revenue	$ 6,508,642	$ 2,407,810	$ 393,857	$ 9,310,309
Gross profit	3,974,001	1,159,811	393,857	5,527,669
General and administrative expenses			1,447,854	1,447,854
Depreciation and amortization	443,268	13,191	20,988	477,447
Product research and development costs			2,447,913	2,447,913
Income and other taxes (benefit)	9,902	97,857	(417,097)	(309,338)
Earnings (loss) for the year	$ 3,520,831	$ 1,048,763	$ (3,105,801)	$ 1,463,793
Total Assets	$ 3,109,903	$ 430,791	$ 5,753,892	$ 9,294,586
Capital Expenditures	$ 54,361	$ 9,174	$ 49,208	$ 112,743

Geographic Segments

	2002		2001	
Years ended March 31,	Revenue	Fixed Assets	Revenue	Fixed Assets
Canada	$ 2,072,047	$ 241,590	$ 1,889,285	$ 142,374
United States	2,143,101	22,137	2,226,763	38,772
Venezuela	1,720,943	74,605	1,617,324	22,121
Other Foreign	3,991,090	9,914	3,576,937	15,888
	$ 9,927,181	$ 348,246	$ 9,310,309	$ 219,155

During 2002, the Company generated 13 percent of total revenues, representing six percent of software license sales and 32 percent of consulting and contract research sales, from one customer.

Corporate Information

Directors

Kenneth M. Dedeluk

Kenneth F. McCready

D. Nathan Meehan

Frank L. Meyer
Chairman of the Board

Robert F.M. Smith

John B. Zaozirny

Officers

Kenneth M. Dedeluk,
President & CEO

Allan D. Hiebert,
VP Visualization & New Technologies

Ronald D. Kutney,
VP Sales & Marketing

Long X. Nghiem,
VP Research & Development

Janet M. Taylor,
VP Finance & CFO

Andrew G. Love,
Corporate Secretary

Head Office

200, 3512 - 33 Street NW
Calgary, Alberta, Canada T2L 2A6
Telephone: (403) 531-1300
Facsimile: (403) 282-1823
website: www.cmgl.ca
email: cmgl@cmgl.ca

Sales Offices

Calgary, Alberta, Canada
Houston, Texas, USA
Caracas, Venezuela
London, England
Beijing, China

Transfer Agent

Computershare Trust Company of Canada

Listing

TSX Venture Exchange, "CPU" (formerly the Canadian Venture Exchange)

Designed and produced by Toucan Graphics and Design Ltd
Pump jack photo by Jeremy Woodhouse/Getty Images
Printed in Canada

200, 3512 - 33 Street NW
Calgary, Alberta, Canada
T2L 2A6
website: www.cmgl.ca
email: cmgl@cmgl.ca